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Annual report of the Executive Director on the activities of the United Nations Office for Project Services

Summary

The present report is submitted pursuant to Executive Board decision 94/32 of 10 October 1994. The report provides an overview of performance in 2002 against financial targets in the UNOPS business plan and reviews UNOPS activities during the year.

The year 2002 was a turning point for UNOPS in that it was able to keep its recurring administrative expenditures within the income received for the year, thereby adhering to the organization's self-financing principle. The achievement of these results involved a major effort on the part of UNOPS staff.

The Executive Board may wish to take note of the report of the Executive Director of the United Nations Office for Project Services (DP/2003/19).

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I. Introduction

1. The present report is submitted in compliance with Executive Board decision 94/32 of 10 October 1994, in which the Executive Director of the United Nations Office for Project Services (UNOPS) was requested to report annually on the activities of UNOPS.

2. Pursuant to Executive Board decision 95/1 of 10 January 1995, the present report has been reviewed by the Management Coordination Committee (MCC).

3. At the first regular session of the Executive Board in 2003, the Deputy Executive Director presented an oral report on the preliminary financial status of UNOPS as of December 2002, together with a report on the implementation of the UNOPS revised budget 2002 (document DP/2003/CRP.3) as well as supplementary information thereon. Pursuant to paragraph 4 of Executive Board decision 2003/3 of 23 January 2003, the Executive Director, a.i,. also submitted to the Executive Board, on updated actual year-end figures for 2002 and projected income and expenditure figures for 2003, including the level of the operational reserve (DP/2003/18). The present report complements the information provided to the Executive Board in document DP/2003/18 and assesses performance against targets approved by the Board in June 2002 (DP/2002/CRP.10).

II. Background

4. Following two consecutive years during which income received by UNOPS did not cover its recurring administrative expenditure for the year, UNOPS faced a budget crisis at the beginning of 2002 when the initial 2002 expenditure and income forecasts projected a $10 million deficit for 2002. In a determined effort to rectify the situation, UNOPS initiated a major budget-reduction exercise that involved a significant diminution in staffing levels. Under the guidance of the Executive Board and the MCC, and with the active support of the MCC Working Group, UNOPS was ultimately able to decrease its recurring administrative expenditure by $9.3 million compared to 2001, ending the year within the approved 2002 administrative budget. UNOPS even generated a small but nonetheless remarkable excess of income over recurring expenditure, bringing the level of the operational reserve to $4.2 million as against the approved level of $3.3 million.

5. While UNOPS was able to turn the tide in 2002 and adhere to its self-financing principle for that year, the prior year's performance, together with an atmosphere of uncertainty regarding the future of UNOPS, caused a great deal of stress among the staff, who continued to feel insecure in the early part of 2002. In this connection, the joint paper submitted by the United Nations Development Programme (UNDP) and UNOPS to the Executive Board during its first regular session 2002 (DP/2002/CRP.4) successfully resolved long-standing differences concerning the roles and responsibilities of the respective organizations as they relate to each other. In addition, the Secretary-General, in his note presented to the Executive Board at the first regular session 2002 (DP/2002/CRP.5), reiterated his support for the continued work of UNOPS as a separate, identifiable and self-financing entity. In the same note, he encouraged all United Nations entities to avail themselves of UNOPS services as long as that option remains cost-effective. UNOPS staff took these two developments as clear signs of support that contributed to assuaging the uncertainty about the future of UNOPS.

6. The seriousness of the financial difficulties in early 2002 motivated UNOPS to pursue one overarching priority, namely, achieving a healthy financial performance through constant focus on financial monitoring in order to ensure UNOPS continued financial viability. Towards that end, a new, more detailed, planning methodology was developed, involving a rigorous delivery, income and expenditure forecasting approach. With respect to delivery, forecasts were based on realistic delivery targets, and these targets were categorized as "guaranteed", "hard" or "soft", reflecting the varying degrees of risk (caused by internal and external factors) that could affect deliverables. With respect to income, a detailed analysis of existing portfolios and related income

rates allowed UNOPS to develop a more accurate projection based on the current portfolio rather than historical trends. With respect to expenditure, UNOPS prioritized its administrative expenditures by allocating them to three categories containing (a) those that were absolutely required for delivery and/or were non-discretionary; (b) those that were otherwise essential but could be reduced without major negative impact on delivery for the year (such as business acquisition activities); and (c) those that were essential in the long term but could be reduced for the year given the financial situation (investment and training in information technologies, for example).

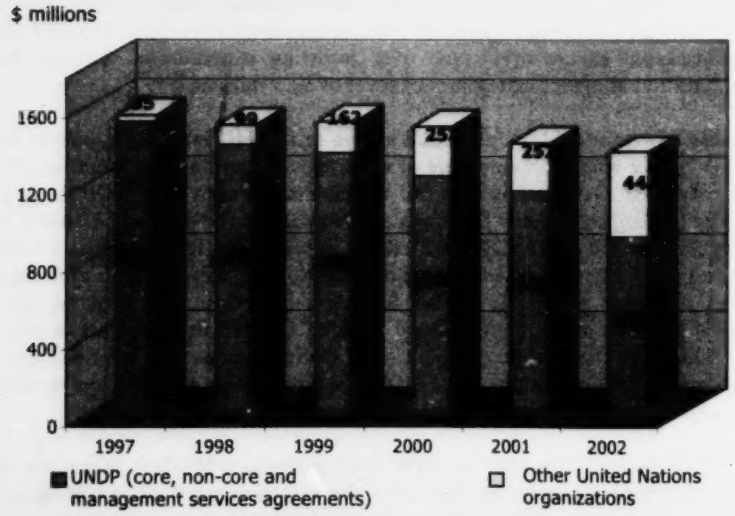
7. Given the scope and nature of the budget reduction exercise in 2002, and notwithstanding the painful staff streamlining exercise that accompanied the significant curtailment of expenditures in other categories of non-staff costs, the outcome was successful in that UNOPS adhered to its self-financing principle and, in fact, achieved better results than anticipated in all of its business parameters. This is all the more remarkable considering the higher-than-anticipated increases in staff costs in some duty stations as a result of the weakening of the United States dollar.

III. Financial performance

A. Overview of the UNOPS portfolio

8. The total portfolio of projects funded by or through United Nations system organizations and managed by UNOPS represented $1 364 billion at the end of 2002. Figure 1 illustrates the historical trend of the overall UNOPS project portfolio as well as the breakdown between the UNDP-financed portfolio and the portfolio of projects emanating from other United Nations organizations.

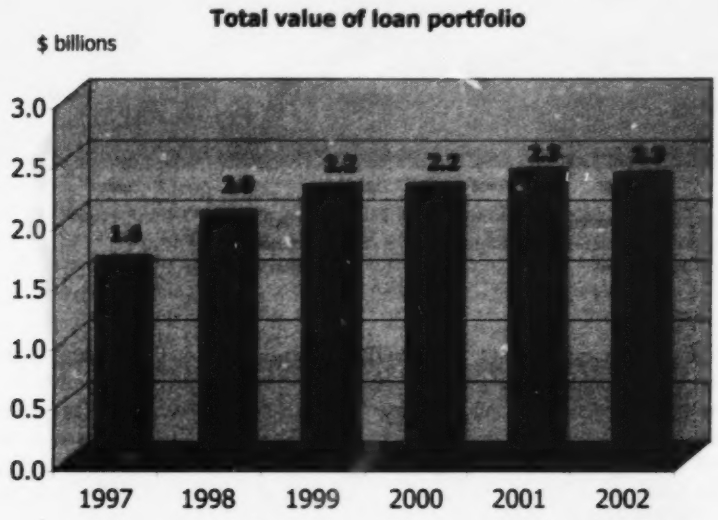
Figure 1: UNOPS project portfolio – historical trend



9. Under the loan portfolio, UNOPS supervises the implementation of nationally executed projects financed through loans from the International Fund for Agricultural Development (IFAD). Under this modality, the primary role of UNOPS is to assist national executing agencies in achieving project objectives by identifying implementation bottlenecks and providing advice on ways and means by which to accelerate loan disbursements.

In the process of conducting its supervision missions, UNOPS provides critical implementation support and contributes to local capacity building. While loan implementation supervision services have so far been provided primarily to IFAD, UNOPS is hopeful that, in the near future, similar services can be provided to projects financed by other financial institutions such as the World Bank. In 2002, the total value of the IFAD loans and grants portfolio was $2.3 billion, and the disbursements effected as a result of UNOPS supervision services amounted to $198 million, compared to $195.5 million in 2001.

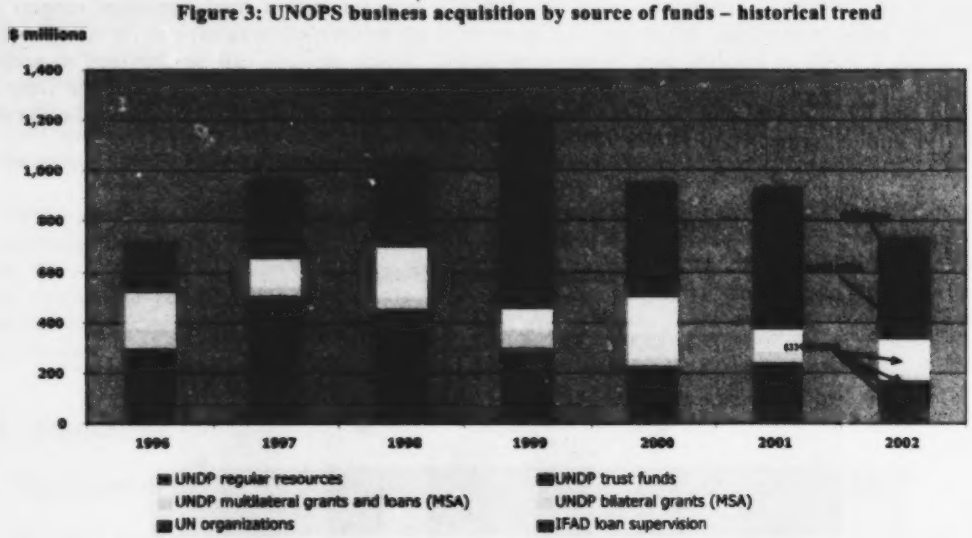
Figure 2: UNOPS loan portfolio – historical trend



B. Business acquisition and client diversification

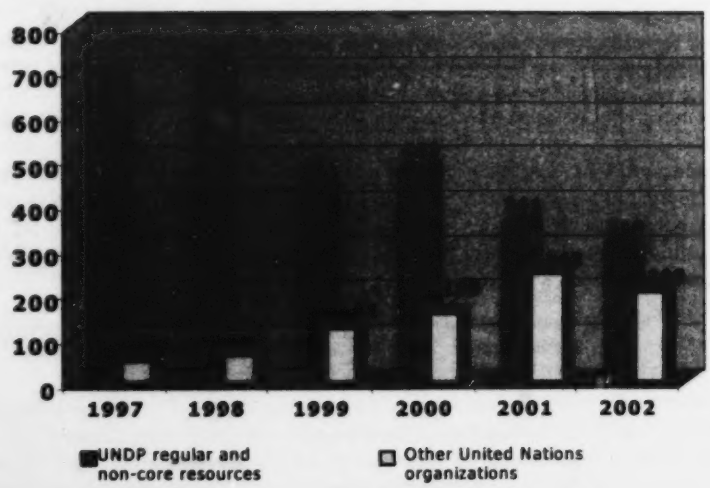
10. UNOPS continues its efforts to further develop and strengthen business with traditional clients, thus providing them with increasing quality and diversity in project management services. At the same time, UNOPS strives to acquire business from new and emerging clients. In 2002, UNOPS acquired a total of $509.1 million in new business for its project portfolio. As shown in figure 3, business acquired from UNDP funding sources, including regular resources, management services agreements (MSAs) and trust funds amounted to $334.2 million or 66 per cent of the overall project portfolio acquisition. Business acquired from other United Nations organizations amounted to US $174.9 million or 34 per cent. The decrease in project portfolio acquisition in 2002 by 16 per cent compared to 2001 ($603 million) is attributable in part to resources constraints that limited initiatives to acquire new business. On the loan portfolio side, IFAD entrusted project supervision and loan administration responsibilities to UNOPS for 14 additional projects totalling a loan portfolio of $225 million in the course of 2002, compared to $328 million in 2001.

Figure 3: UNOPS business acquisition by source of funds – historical trend



11. While UNDP remains the main client for UNOPS, business acquisition from UNDP regular and other resources declined for a third consecutive year in 2002. Business acquired from other UN organizations had shown a positive trend from 1997 to 2001 but that trend was not sustained in 2002 (see figure 4). Nevertheless, UNOPS is hopeful that business entrusted to UNOPS by other United Nations clients such as the United Nations Children's Fund (UNICEF), the Office of the United Nations High Commissioner for Human Rights (OHCHR) and the United Nations Department for Peace-keeping Operations (DPKO) will continue to grow, accelerating the diversification of the UNOPS project portfolio.

Figure 4: UNOPS business acquisition from UNDP and other United Nations organizations – historical trend



12. It is essential for UNOPS to monitor its business environment and fee structure closely, so that it can adapt flexibly and rapidly to changing demands while ensuring that services remain cost-effective. This requires a thorough understanding of client needs and strategies, including the need to maintain close contacts with the client at all levels.

C. Delivery

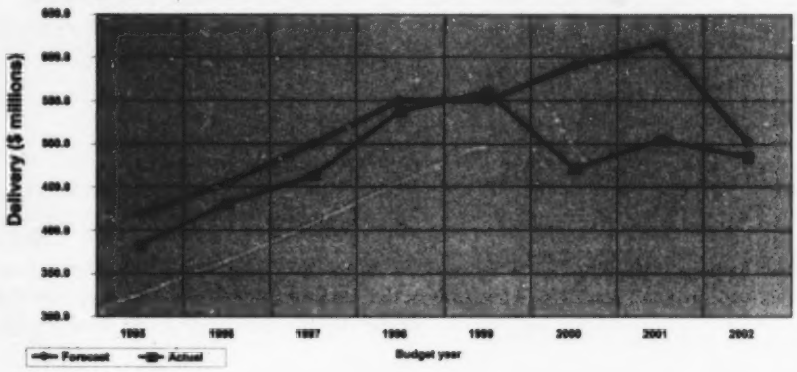
13. Project delivery totalled $485.1 million in 2002, compared to the original target of $503 million. As already reported to the Executive Board in document DP/2003/18, the target would have been achieved were it not for the unexpected freezing of a procurement activity by one client amounting to $18 million.

14. Figure 5 below demonstrates that UNOPS remained on track in project delivery throughout the year 2002. Given that personnel size was reduced by 23 per cent in the course of 2002, the fact that UNOPS reached 96 per cent of its delivery target is remarkable, and reflects strong commitment and focused efforts on the part of the staff.

Figure 5: UNOPS delivery for 2002 – cumulative vs. linear target (in millions of United States dollars)

15. As reported above, UNOPS introduced a rigorous delivery forecasting methodology early in 2002. As a result, UNOPS was able to return to accurate delivery forecasting as illustrated in figure 6, which illustrates the UNOPS historical record of delivery forecasting since 1995.

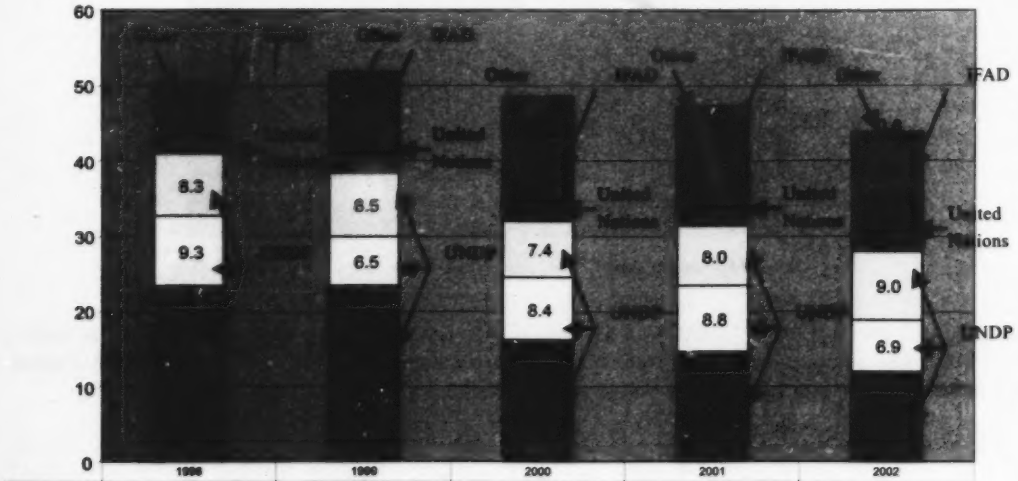
Figure 6: Delivery forecast vs. actual delivery – historical trend



D. Income

16. Total project income for 2002 amounted to $35.4 million, including the cost of services rendered for the procurement action frozen by a client referred to in paragraph 13 above. Of the total income generated from project delivery, $27.9 million, or close to 79 per cent, represents income from UNDP sources of funds covering the UNDP regular budget, trust funds and MSAs. Income generated from other United Nations sources amounted to $7.5 million. Project supervision and loan administration produced additional income of $ 7.5 million. This combined total of $42.9 million, together with miscellaneous income of $0.8 million, produced a grand total of $43.7 million in income for the year, slightly less than the approved revised estimate of $44.3 million. Figure 7 below lists income by source of funds.

Figure 7: Income by source of funds



	1998	1999	2000	2001	2002
Other	2.6	3.1	5.2	2.3	0.8
Services	4.1	5.8	6.5	7.0	7.5
UN	2.6	4.5	4.8	6.5	7.5
MSA	8.3	6.5	7.4	8.0	9.0
UNDP TF	9.3	6.5	8.4	8.8	6.9
UNDP Regular	23.4	23.4	16.2	14.6	12.0
Total	50.1	51.8	49.5	47.2	43.7

17. The average project portfolio income rate achieved by UNOPS during 2002 was 7.3 per cent, 0.1 per cent higher than the rate used for business planning purposes. The issue of income rate remains a concern to UNOPS given that the average income rate for 2002 is low in comparison to rates in previous years, reflecting the downward pressure on support costs and shifts in the composition of the overall project portfolio.

E. Expenditures

18. Administrative expenditures totalled $43.5 million, which is $0.5 million, or 1.9 per cent, below the approved budget of $44.0 million. Total income amounted to $43.7 million, allowing UNOPS to replenish the operational reserve by $0.2 million, a small but symbolically important contribution given the many organizational challenges faced during the year. Of the total $43.5 million, $30.1 million, or 70 per cent, was related to staff costs, and $8 million, or 18 per cent, to contractual services, equipment, communications, travel and operating expenses. Expenditures also included $5.4 million, or 12 per cent, in reimbursements to UNDP and the United Nations for a wide range of central and operational support services at headquarters and the country level.

19. To achieve the above results, as explained earlier, UNOPS implemented drastic cost-cutting measures in administrative expenditures amounting to $9.3 million when compared to the 2001 administrative expenditures. The measures included a 23 per cent reduction in personnel costs through the cutting of posts and a reduced use of consultants; a reduction in temporary assistance costs; a freeze in staff recruitment and in the reclassification of post levels; reductions in overtime payments; cutbacks on information and technology investments; and the deferral of various activities and expenses, including travel not directly related to delivery, as well as training activities. This difficult exercise was implemented within a matter of months, causing considerable discomfort to all parties involved in or affected by the process.

F. Operational reserve

20. The year-end balance of the operational reserve in 2002 amounted to $4.2 million. After successive conservative projections, it had been projected that by year-end the level would reach $3.3 million. During 2002, as approved by the Executive Board in its decision 2002/17, staff separation costs were charged to the reserve at an amount of $1.5 million, compared to $2.0 million provided for initially. Savings from cancelling prior-year unliquidated obligations of $0.7 million were credited to the reserve while a $0.6 million provision was made for a doubtful account in respect of a prior-year receivable, as reported in document DP/2003/18.

21. Figure 8 summarizes performance in project delivery, income, expenditures and movements of the operational reserve against targets approved by the Executive Board for 2002 in decision 2002/21.

Figure 8: Actual project delivery, income, administrative expenditures and movements of the operational reserve in 2002 (in millions of United States dollars)

	Approved revised 2002 estimates [1]	Actual 2002 [2]
Delivery		
Total project delivery	**503.2**	**485.1**
Income		
– Income from implementation of project portfolio	35.4	35.4
– Income from "services only"	7.8	7.5
– Other income (interest and rental)	1.1	0.8
Total income	**44.3**	**43.7**
Expenditure		
– Administrative expenditure	44.8	43.5
– Expenditures approved/proposed as a direct charge to the operational reserve		
Separation	2.0	1.1 [3]
Provision for write-off		0.6
Partial Enterprise Resource Planning system investment cost		
Total expenditure	**46.8**	**45.2**
Movements on the operational reserve		
– Operational reserve brought forward	5.8	5.8
– Transfer to/from operational reserve	(1.7)	(1.5)
– Transfer to operational reserve (savings from liquidation of prior year unliquidated obligations		0.7
Operational reserve brought forward	**3.3**	**4.2**

[1] As approved at the second regular session 2002 (DP/2002/33 and decision 2002/21 refer)

[2] Includes income from purchase orders valued at $18 million, not reflected in the project delivery figure, which the client has put on hold

[3] Represents a total of $1.1 million for separation costs incurred in 2002 against $2.0 million approved

IV. Operational and other highlights

A. Expansion of existing client portfolios and new clients

22. UNICEF entrusted UNOPS with a new $9.0 million project in Afghanistan operating on the principle of an execution partnership that is based on division of labour. It recognizes the UNICEF mandate to protect children's rights and help meet their basic needs, and its lead role in water and sanitation, as well as the UNOPS capacity and expertise in project implementation and management services to UNICEF in carrying out its mandate. It is hoped that the partnership will prepare the way for long-term cooperation in a number of countries, particularly in Africa. To help promote this new cooperation modality, UNICEF has provided a principal advisor to UNOPS on a one-year non-reimbursable loan basis.

23. UNDP provides support to the newly created African Union, the successor institution to the Organization of African Unity (OAU) through the funding of a regional project, among other contributions, and it has requested UNOPS to execute the preparatory phase. UNOPS services will contribute to the effective operations of the African Union mechanism for conflict prevention, management and resolution through human resources development and strengthened information systems.

24. The World Bank invited UNOPS to work closely with UNDP and the Nile Basin Initiative Secretariat on the execution, under an MSA, of a major initiative in the Nile river basin with initial funding of $40 million. An additional six projects are being finalized for World Bank financing and Nile Secretariat execution, for a total amount of $80 million. Implementation will also be entrusted to UNOPS under a series of MSAs.

25. Under MSAs entered into by UNDP and the Government of Japan, UNOPS continued its long-standing service as one of the three procurement agents of the Non-Project Grant Aid (NPGA) programme of Japan. In addition to the previously assigned countries where UNOPS has been providing such procurement services, it was entrusted with the implementation of the first grant approved for the Republic of Tajikistan, valued at $15 million. In partnership with the UNDP country office in Tajikistan and in close cooperation with the Ministry of Economy and Trade of the Republic of Tajikistan, UNOPS procured and delivered the goods and equipment requested by the Government to strengthen the agricultural sector of the country. Subsequently, in March 2002, the Government of Japan decided to finance a second NPGA grant to Tajikistan, valued at $8 million, with the implementation responsibility again entrusted to UNOPS. As at end of 2002, agricultural goods and equipment with a total value of $13.6 million had been delivered for distribution among end users for early spring agricultural work.

26. UNOPS continued to support the mine action programmes of its three main clients – UNDP, the United Nations Office of the Iraq Programme (UNOIP) and the United Nations Mine Action Service (UNMAS) – in 18 countries around the world. This role expanded significantly in the course of the year, with increased activities in Northern Iraq, new responsibilities for the existing programme in Afghanistan, and the formulation of new programmes, which are expected to expand, in the Democratic Republic of the Congo and the Sudan.

27. The International Telecommunications Union (ITU) has become a new client for UNOPS for the implementation of a project entitled "Assistance to the organization of the World Summit on the Information Society". The summit, organized by ITU, will be held in Geneva in December 2003. This project will, for the first time, allow civil society participation from the information and telecommunications field in the debate and the development of strategies for the summit.

28. UNOPS is one of the four pre-qualified Local Fund Agents (LFAs) designated by the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) to supervise the implementation of nationally executed, GFATM-financed programmes. To date, UNOPS has signed agreements with, or been designated to be the LFA for, China, India, Mongolia, Serbia and Montenegro, and Timor-Leste, and negotiations with the GFATM for similar work in other countries continue. In countries where UNOPS does not have LFA responsibilities, UNOPS is exploring options to assist GFATM operations by supporting principal recipients in the implementation of project activities.

B. Noteworthy activities

29. UNOPS continued its long-standing activity, started in 1994, of providing project execution services to UNDP in Myanmar for a number of grassroots-based projects under the Human Development Initiative (HDI). For the HIV/AIDS project, UNOPS facilitated the coordinated use of local capacities at the community and national levels as well as the effective involvement of local and national non-governmental organizations (NGOs). Under the Sustainable Livelihoods through Microfinance for the Poor project, UNOPS is involved in the extension of microcredit to over 60 000 of the poorest household in three states of Myanmar. In connection

with the Community Development for Remote Townships project, UNOPS implemented an integrated approach to rural development and introduced improved, appropriate technologies that are sustained by community organizations.

30. The Joint United Nations Programme on HIV/AIDS (UNAIDS) has entrusted to UNOPS the implementation of a project entitled "AIDS in Africa: Scenarios for the future", which was developed and funded in partnership with Shell/UK. The project engages a scenario-based approach to responding to the impact of the HIV/AIDS epidemic in Africa. It aims to form a shared understanding of the problem and help activate a broad-based response from all segments of society, and to overcome the stigma and discrimination experienced by HIV-positive individuals. The Global Business Development division of Shell International, which has considerable expertise in scenario building for its own operation, will support the project through technical know-how and contributions to the budget.

31. UNOPS successfully introduced performance-based contracting in late 2001 and expanded it in 2002. The United Nations Population Fund (UNFPA) approached UNOPS in 2001 to provide operational and administrative support in the implementation of its organizational transition to improve day-to-day operations and to position itself strategically for the future. UNOPS entered into a contract with UNFPA to provide a range of services, primarily in the area of human resources and the organization of workshops and training seminars. The contract included detailed performance indicators – especially turn-around time targets – and UNFPA reserved the right to claim compensation in the event that UNOPS unable to meet performance targets. UNFPA has expressed its satisfaction with this arrangement and with the performance of UNOP, and never had to claim compensation; to the contrary, UNOPS exceeded the performance targets in many instances. This positive experience has led to a decision from UNFPA to outsource certain personnel functions to UNOPS, thus freeing up UNFPA human resources to concentrate on its core priorities.

32. Similarly, UNOPS was retained by the United Nations Environment Program (UNEP) to provide contracting services for an evaluation of the environmental impact of major projects prior to their implementation. Through this mechanism, the fee charged by UNOPS is subject to fluctuation based on the expeditiousness with which experts are identified and placed. UNEP has been satisfied with this arrangement and has requested that a second contract be negotiated along the same lines.

33. In Kosovo, the Housing and Property Directorate (HPD) aims at regularizing property rights. Its work focuses on resolving property disputes with an estimated 30 000 claims scheduled for the next six years. These claims originate from the illegal appropriation of property titles in the years preceding the Kosovo conflict as well as during and after the conflict. UNOPS supports HPD by administering contracts for more than 20 international and 150 national staff, allowing HPD to focus on its core objectives and competencies. The total budget of the HPD project, one of a cluster of 14 projects of the United Nations Interim Administration Mission in Kosovo (UNMIK) implemented by UNOPS to date, is estimated to be approximately $25 million.

34. The Italian private sector cooperative Coop supports the UNDP Human Development Programme (HDP) in Angola, executed by UNOPS, to improve the lives of children in Angola. 100 000 children were vaccinated and 6 000 children obtained a daily meal through this programme with a budget of $260 715. UNOPS is facilitating the link between Coop and the local economic development agencies created by the HDP, which is expected to bring Angolan coffee to the Italian market, establishing economically viable trade relations and creating synergies between development assistance and the private sector. Similar arrangements are under way in the framework of other UNDP-funded projects executed by UNOPS in Mozambique and South Africa.

C. One-time activities related to the budget reduction exercise

35. The budget reduction conducted in 2002 required a functional review, extensive planning and careful execution. In March 2002, the Division for Human Resources Management (DHRM) started work on a six-month programme to implement a reduction of staffing levels. The culmination of this programme took place at the end of September 2002. DHRM formulated a staff reduction policy comprised of guidelines and procedures, including recourse procedures. Career counseling, outplacement assistance and other transitional support were provided to staff affected by the budget reduction exercise.

36. Of the 56 staff members affected, 12 were placed in new posts that were established during the budget reduction exercise, and another 19 were placed in UNOPS projects, other United Nations agencies, or placed on special leave without pay, so that a total of 25 staff members had to be separated. The process was handled professionally, in accordance with stringent guidelines and procedures.

37. A number of lessons learned from the budget reduction exercise proved valuable for the future. First, the differences in staff status (some staff members had UNDP letters of appointment not limited to UNOPS, some had UNDP letters of appointment limited to UNOPS, and others had UNOPS letters of appointment) complicated administrative matters and created unnecessary and unfortunate friction among staff. Second, the exercise reinforced the essential need for good, sound and consistent communication among all staff at all levels. Nevertheless, while, with organizational support and commitment, UNOPS has been able to make and implement decisions relatively expeditiously, remaining within the letter and spirit of United Nations Staff Regulations and Staff Rules, the ability to fully respond in a timely and businesslike manner remains a major challenge. Therefore, for the future, UNOPS will continue to design and implement a variety of contracting tools aimed at allowing more flexibility and efficiency in the face of situations such as the one experienced in 2002.